

Message Text

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ACTION EB-07

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596; CARACAS 2996 APR 5, 1974

1. AS REQUESTED DEPREFTEL, THERE FOLLOWS POST'S CURRENT ASSESSMENT OF INVESTMENT CLIMATE IN VENEZUELA.

2. GREATLY INCREASED OIL REVENUE HAS CATAPULTED VENEZUELA IN THE LAST TWO YEARS FROM THE STATUS OF A DEVELOPING COUNTRY TO A MIDDLE-INCOME NATION WITH A GNP PER CAPITA OF MORE THAN \$2,300 AND INTERNATIONAL RESERVES OF MORE THAN \$8 BILLION. WHILE THIS DRAMATIC IMPROVEMENT IN VENEZUELA'S ECONOMIC SITUATION WOULD SEEM TO HAVE INCREASED THE OPPORTUNITIES FOR PROFITABLE INVESTMENT, VENEZUELA NO LONGER HAS AS STRONG A DESIRE TO ATTRACT FOREIGN CAPITAL. INDEED, THE GOV IS INCREASINGLY APPLYING NEW REGULATIONS WHICH MAY LIMIT FOREIGN INVESTMENT.

3. THE GOVERNMENT HAS ESTABLISHED THE VENEZUELA INVESTMENT FUND TO NEUTRALIZE THE INFLATIONARY IMPACT

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OF THE COUNTRY'S EXCESS FOREIGN EXCHANGE, INVESTING IT ABROAD

PRIMARILY IN SHORT TERM ASSETS UNTIL IT CAN BE ABSORBED BY FOREIGN EXPENDITURES FOR DOMESTIC LARGE SCALE INVESTMENT PROJECTS. THE GOVERNMENT REALIZES, ON THE OTHER HAND, THAT FOREIGN INVESTMENT NOT ONLY PROVIDES CAPITAL BUT ALSO IS A VEHICLE FOR TRANSFER OF TECHNOLOGY. FURTHERMORE, IT IS NOW BECOMING CLEAR THAT VENEZUELA'S OIL REVENUE OVER THE LONG RUN MAY NOT BE SUFFICIENT TO SUPPORT ALL ITS LARGE SCALE DEVELOPMENT PROJECTS AND THAT FOREIGN CAPITAL AGAIN MAY BE REQUIRED TO FILL THE GAP. THUS, VENEZUELA CONTINUES TO WELCOME FOREIGN INVESTMENT, PARTICULARLY IN HIGH-PRIORITY ECONOMIC SECTORS SUCH AS AGRICULTURE, PETRO-CHEMICALS, STEEL, ALUMINUM, MACHINE MANUFACTURING AND SHIP-BUILDING, BUT ON VENEZUELA'S TERMS AND IN ACCORDANCE WITH ITS COMMITMENTS UNDER THE ANDEAN PACT.

4. IN LINE WITH ITS POLICY OF CONTROLLING THE COUNTRY'S BASIC RESOURCES, THE GOVERNMENT HAS NATIONALIZED THE FORMERLY US OWNED IRON MINING INDUSTRY AND IS IN THE PROCESS OF NATIONALIZING THE PETROLEUM INDUSTRY. IN ACCORDANCE WITH DECISION 24 OF THE AGREEMENT OF CARTAGENA, FOREIGN OWNERSHIP IN THE SO-CALLED SENSITIVE INDUSTRIES, I.E., INTERNAL COMMERCE, ELECTRICITY, RADIO, TELEVISION, PUBLICATIONS IN SPANISH, DOMESTIC TRANSPORTATION, PROFESSIONAL CONSULTATION AND SERVICES, MUST BE REDUCED TO 20 PERCENT BY MAY 1977 AND MOST OTHER TYPES OF FOREIGN INVESTMENT MUST BE REDUCED TO 49 PERCENT BY 1989, WITH THE EXCEPTION OF EXISTING INVESTMENT WHICH DOES NOT ELECT TO TAKE ADVANTAGE OF THE BENEFITS OF THE ANDEAN PACT. THE TERMS OF FOREIGN INVESTMENT MUST BE APPROVED BY THE SUPERINTENDENT OF FOREIGN INVESTMENT. LEGISLATION NOW PENDING IN THE CONGRESS MAY REQUIRE THE SUPERINTENDENT TO ASSURE THAT PREVIOUSLY OWNED FOREIGN SHARES DIVESTED IN COMPLIANCE WITH THE LAW BE WIDELY DISTRIBUTED IN ORDER TO AVOID CONCENTRATION OF OWNERSHIP WITHIN VENEZUELA. THESE REQUIREMENTS, IF PASSED, COULD MAKE IT DIFFICULT FOR FOREIGN OWNERS TO OBTAIN THE MAXIMUM OR EVEN AN EQUITABLE RETURN ON FORCED SALE OF THEIR SHARES.

5. TO PROMOTE NON-TRADITIONAL EXPORTS CONGRESS PASSED LAWS PROVIDING FOR FISCAL INCENTIVES AND AN EXPORT FINANCING FUND. INTERNALLY THE CAPITAL MARKETS LAW ESTABLISHED LIMITED OFFICIAL USE

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THE NATIONAL SECURITIES COMMISSION (A SECURITY AND EXCHANGE COMMISSION TYPE REGULATORY BODY) AND PROVIDES TAX INCENTIVES TO OPEN-CAPITAL COMPANIES WHICH ACHIEVE A WIDE DISTRIBUTION OF STOCK OWNERSHIP AND MEET OTHER CRITERIA.

6. OPIC HAS INSURED A VERY SMALL PERCENTAGE OF TOTAL US INVESTMENT HERE AND IS NOT CONSIDERED BY THE GOVERNMENT TO BE IMPORTANT TO ITS DEVELOPMENT PROGRAM. OPIC HAS BEEN OPERATING

HERE WITHOUT ANY AGREEMENT FOR SETTLEMENT OF DISPUTES,
INCLUDING INTERNATIONAL ARBITRATION AND SUBROGATION OF
RIGHTS, WHICH IS PROHIBITED BY ARTICLE 51 OF DECISION 24
OF THE AGREEMENT OF CARTAGENA. OPERATIONS HAVE BEEN
SUSPENDED PENDING DECISION BY THE OPIC BOARD.

7. STATISTICS FOR VENEZUELAN INVESTMENT IN THE US ARE NOT
AVAILABLE FROM GOVERNMENT SOURCES; HOWEVER, IT IS
EMBASSY'S IMPRESSION THAT SUCH INVESTMENT IS MINIMAL AT
THIS TIME. SINCE SURVEY OF CURRENT BUSINESS CONTAINS
STATISTICS ON INVESTMENT BY LATIN AMERICA, IT IS ASSUMED
COMMERCE HAS ESTIMATES FOR INDIVIDUAL COUNTRIES COMPOSING
TOTAL INCLUDING VENEZUELA.

8. DIRECT INVESTMENT IN VENEZUELA BY FOUR LARGEST
INVESTING COUNTRIES AT END OF 1972 ACCORDING TO
MOST RECENT STATISTICS OF CENTRAL BANK FOLLOW:

TOTAL FOREIGN INVESTMENTS

BY COUNTRY - 1972
(MILLIONS) - (US \$1 EQUALS BS. 4.30)

BS US\$

TOTAL INVESTMENT	14,404	3,350
USA	8,940	2,079
UNITED KINGDOM	1,115	259
HOLLAND	1,382	321
CANADA	739	172
OTHER COUNTRIES	2,228	518
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